

Message Text

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70

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 CIEP-02 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01

FTC-01 INT-08 TAR-02 NIC-01 FEA-02 FPC-01 SCI-06

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TO SECSTATE WASHDC 4486

C O N F I D E N T I A L REYKJAVIK 0602

E.O. 11652: GDS

TAGS: ECON EFIN IC

SUBJECT: FOREIGN INVESTMENT CLIMATE

REF: STATE 53993

BEGIN CONFIDENTIAL

1. BECAUSE OF SEVERE ECONOMIC AND POLITICAL DIFFICULTIES, ICELAND'S FOREIGN INVESTMENT CLIMATE IS MOST UNCERTAIN. PRESENT GOVERNMENT COULD FALL ANY TIME NOW, AND IF COMMUNIST PARTY, WHICH IS ONE OF THREE MEMBERS OF COALITION, AND COMMUNIST MINISTER OF INDUSTRY ARE FORCED OUT, AS SEEMS LIKELY, INVESTMENT CLIMATE WILL IMPROVE CONSIDERABLY. EXCELLENT EXAMPLE OF CURRENT SITUATION INVOLVES PROPOSED FERRO SILICON PLANT IN WHICH UNION CARBIDE WOULD HAVE 35 PERCENT SHARE. THREE YEARS OF NEGOTIATIONS HAVE BEEN COMPLETED AND 55 OF 60 ALTHING (PARLIAMENT) MEMBERS ENDORSE PROJECT, INCLUDING MINISTER OF INDUSTRY MAGNUS KJARTANSSON. FIVE DISSIDENT MPS ARE FROM KJARTANSSON'S PARTY AND - FOR IDEOLOGICAL REASONS - HAVE BLOCKED HIS INTRODUCING ENABLING

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LEGISLATION, WITH RESULT THAT CARBIDE MAY BE KEPT COOLING HEELS

UNTIL OCTOBER OR LATER. WHILE PRESENT GOVERNMENT REMAINS IN POWER, KJARTANSSON IS ONLY ONE WHO WILL INTRODUCE LEGISLATION. THE FOLLOWING UNCLASSIFIED STATEMENT ATTEMPTS TO COVER CONFUSED PRESENT SITUATION AND THE IMPROVED PICTURE EXPECTED BY END OF THIS YEAR OR EARLIER. END CONFIDENTIAL BEGIN UNCLASSIFIED/BEGIN NARRATIVE.

2. GENERAL ECONOMIC UNCERTAINTY AND AN UNSETTLED POLITICAL PICTURE COMBINE TO CAST SOMETHING OF A SHADOW OVER A STILL LARGELY FAVORABLE INVESTMENT CLIMATE IN ICELAND. WITH WAGES CURRENTLY INCREASING AT A RATE WHICH COULD REACH 60 PERCENT BY THE END OF 1974 AND WITH THE COST OF LIVING RISING AT A RATE OF SOME 45 PERCENT ANNUALLY, POTENTIAL FOREIGN INVESTORS FACE SOME VERY REAL PROBLEMS. AS OF MAY 1, NO SPECIFIC GOVERNMENT MEASURES HAD BEEN TAKEN TO ALTER THE PRESENT COURSE, BUT A VARIETY OF REMEDIES HAS BEEN DISCUSSED AND SOME STEPS ARE CLEARLY EXPECTED BEFORE THE YEAR IS OUT.

3. POLITICALLY THE PICTURE IS EQUALLY UNCERTAIN FOR POTENTIAL FOREIGN INVESTORS. IN GENERAL THE POLITICAL LEADERS OF ALL FIVE PARTIES FAVOR FOREIGN INVESTMENT, THOUGH ALMOST CERTAINLY WITH MAJORITY OWNERSHIP IN ICELANDIC HANDS, BUT SOME MEMBERS OF THE PEOPLE'S ALLIANCE PARTY, WHICH IS ONE OF THREE PARTIES WITHIN THE GOVERNING COALITION, HAVE SHOWN A STRONG AVERSION TO FOREIGN INVESTMENT AND HAVE RECENTLY SUCCEEDED IN HAVING THEIR VIEWS PREVAIL. THE SITUATION MAY BE CLARIFIED BY THE END OF THE YEAR.

4. ICELAND CAN POINT TO ONLY TWO EXAMPLES OF FOREIGN INVESTMENT, ONE IN ALUMINUM SMELTING AND A SECOND IN DIATOMITE PRODUCTION. A FERRO SILICON PLANT IS UNDER ACTIVE CONSIDERATION. ICELAND NOT ONLY HAS LIMITED EXPERIENCE IN WORKING WITH POTENTIAL FOREIGN INVESTORS BUT SO FAR HAS NO ESTABLISHED BODY OF LAWS OR REGULATIONS TO GOVERN INVESTMENT. AS A RESULT, FOREIGN FIRMS CAN EXPECT TO DEAL VERY MUCH ON AN AD HOC BASIS, AND, IN THE CASE OF ANY MAJOR PROJECT, WITH REPRESENTATIVES OF THE VARIOUS POLITICAL PARTIES THAT FORM THE GOVERNMENT AT THAT TIME.

5. A POPULATION OF ONLY 212,000 ALL BUT RULES OUT INVESTMENTS TO SERVE THE LOCAL MARKET, AND LIMITED NATURAL RESOURCES - PRINCIPALLY CHEAP HYDROELECTRIC POWER - RESTRICT FOREIGN INVESTMENT
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PRINCIPALLY TO ENERGY INTENSIVE INDUSTRIES SUCH AS THE ALUSUISSE ALUMINUM SMELTER AND THE PROPOSED FERRO SILICON PLANT. ELECTRIC GENERATING FACILITIES ARE ALL GOVERNMENT-OWNED. FUTURE DEVELOPMENT OF A CHEMICAL INDUSTRY USING GEOTHERMALLY-HEATED SEA WATER IS A POSSIBILITY. BEYOND THESE AREAS THERE IS NOTHING FOR THE PRESENT THAT WOULD WARRANT FOREIGN INVESTMENT OF ANY REAL MAGNITUDE.

6. ICELAND IS A DEMOCRATIC AND HIGHLY LITERATE NATION, HEAVILY

DEPENDENT ON ITS FISHING INDUSTRY AND ANXIOUS TO DIVERSIFY ITS ECONOMY THROUGH INDUSTRIALIZATION. A STRONG TRADE UNION MOVEMENT, VIRTUALLY NO UNEMPLOYMENT, AND A FLUCTUATING CURRENCY ARE OTHER FACTORS TO BE CONSIDERED BY ANY FOREIGN INVESTORS. (END NARRATIVE).

7. INVESTMENT STATISTICS SUBMITTED LAST YEAR REMAIN VALID.
END UNCLASSIFIED.
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